

CHAIRMAN'S STATEMENT



Wang Xin *Chairman of the Board*

In the year 2005, due to the delay in resettlement of certain of the villages located within the coal field of the Company, the raw coal production of the Company decreased. However, with the great support of all the shareholders and through the hard work of our staffs, the Company has achieved good income results and the income attributable to equity holders of the Company for the year 2005 was RMB2,881.5 million, representing a decrease of 8.6% over that of 2004.

To reward the shareholders of the Company (the "Shareholders") for their long-term support to the Company, the Board of Directors proposes to declare a special cash dividend to the Shareholders for the year 2005 in addition to the dividend payable in accordance with the Company's consistent dividend policy. The 2005 cash dividend payable in accordance with the Company's consistent dividend policy is RMB737.7 million (tax included) or RMB0.150 per share (tax included); and the 2005 special cash dividend is RMB344.3 million (tax included) or RMB0.070 per share (tax included). The amount of these two types of dividends aggregate to RMB1,082 million (tax included) or RMB0.220 per share (tax included) in total. The proposed dividends payment will be presented to the Shareholders for approval at the Company's annual general meeting for 2005 (the "2005 AGM").

ACHIEVEMENTS IN 2005

In 2005, in both domestic and overseas coal markets, demand and supply thrived, prices recorded a significant increase.

In 2005, the Company produced 34.66 million tonnes of raw coal, representing a decrease of 11.5% over that of 2004; sold 32.48 million tonnes of saleable coal, representing a decrease of 14.5% over that of 2004. The average coal sales price of the Company was RMB349.50 per tonne, representing a 28.3% increase over that of 2004. In 2005, the Company realized a net income attributable to equity holders of the Company of RMB2,881.5 million, representing a 8.6% decrease over that of 2004.

In 2005, the Company focused on the implementation of a series of operation measures to stabilize its existing coal output and sales volume, to strengthen the "Four Optimizations" for the sale of coal and to tighten its cost control. These measures include i) enhancement of efforts to decrease the negative impact caused by the delay in the resettlement of the villages located within the coal field of the Company and after a sharp decrease in the third quarter; the raw coal production of the Company gradually increased month by month in the fourth quarter of 2005. ii) reduction of the sales cost and increase product selling prices by optimizing its products mix, users mix, transportation structure and port flow structure; iii) improving the product reputation and competitive capability of the Company by

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continuously implementing the "Three Nil Project" (Nil Defect, Nil Impurity and Nil Claim) thereby decreasing the impurity ratio of clean coal to 1.12kg/10,000 tonnes; iv) strengthening its cost management and control, which has partially offset the increased costs and expenses.

The Company's external development projects have achieved some breakthroughs. The Company acquired 95.67% equity interest in Heze Nenghua, which was owned by Yankuang Group Corporation Limited (the "Yankuang Group" or the "Parent Company"), and the construction of Zhaolou Coal Mine, a coal mine owned and operated by Heze Nenghua is being carried out as planned. The preparatory works prior to the recommencement of production of Austar Coal Mine in Australia, which was acquired by the Company at the end of 2004, is being carried out smoothly. Negotiation for the new coal mine project in Shaanxi Province has made progress. The preliminary design of the principle part and the equipment procurement tender of the 600,000 tonnes of methanol project have been finished. The development of these new projects enriches the resources reserves and extends the production chains of the Company are beneficial to the enhancement of the Company's operating scale and profitability and thereby consistently increases our shareholders' return.

The Company has improved its systems and normalized its operation. The Company has established and improved its procedures for the corporate governance and the connected transactions of the Company and the system for disclosure of information, etc. Pursuant to the requirements of Sarbanes-Oxley Act, the Company has fully initiated and improved the construction of the internal control systems.

In March 2006, the Company completed the share reform plan proposed by the Yankuang Group. The Yankuang Group paid 2.5 non-tradable shares for every 10 shares held by each holder of A shares in exchange for the right to list and trade the non-tradable shares held by the Parent Company on the PRC's domestic A share market. After the implementation of the reform, the shareholding of the Yankuang Group was reduced from 54.33% to 52.86%.

The Board is satisfied with the Company's achievements in 2005.

OUTLOOK FOR 2006

In 2006, the demand and supply of coal in both domestic and overseas markets will generally be in equilibrium.

The total quantity of the demand and supply of coal in the domestic coal market will remain in equilibrium. The supply of coal in some regions, at certain time or in respect of certain types of coal may fall short of the demand. The steady growth of the PRC's economy will increase the demand of certain coal-consuming industries, such as power and metallurgical industries. Factors such as the commencement of new coal mines and the decreased net export volume of coal, etc. will increase the domestic supply of coal. According to the PRC's Government's plan to continue closing down small sub-standard coal mines, the growth in the volume of coal supply will be slightly lower than the growth in demand volume in the year 2006. The increasing coal transportation capacity will partially ease the tight domestic coal transportation capacity. The price of good quality steam coal is expected to maintain at a high level, and the prices of poor quality coal and coking coal are expected to reduce slightly. Measures such as greater concentration among coal enterprises and the PRC Government's policies such as continuously strengthening the safety and environmental protection of the coal mines, protective mining of coal resources and the marketisation of the prices of power coal, etc.. are beneficial to sustaining the development of the coal industry and the increase of the competitive capacities of the large scale coal enterprises.

The demand of coal in the international market will be strong. The economic growth of U.S.A., Japan and the other Asian countries will maintain strong, and the demand for energy by these counties will increase. The coal import of India and China will increase and it is expected that in 2006, the growth in import volume of coal in the Asia-Pacific region will be higher than that of the average level of the world. It is expected that in 2006, the export volume of coal from Australia will remain stable on the whole, the

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export volume of coal of the PRC will decrease and coal export from Indonesia will increase slightly and that the supply of coal in East-Asia will slightly increase. High international oil price and coal price in South Africa and Europe and the increased demand for coal in the Asia Pacific region will be beneficial to the stability of coal price in the Asia-Pacific region. On 20th April 2006, the spot price of the Australian BJ steam coal was USD52.90/tonne, representing an increase of 39.4% over the lowest price of USD37.95/tonne in 2005. It is expected that the export coal contract price in the year 2006 will be higher than the current spot price, and the amount of price decrease in coking coal will be greater than that in steam coal.

The average coal sales prices of the Company is expected to decrease slightly in 2006 compared to that of 2005. Currently, The Company has not yet completed its negotiations for domestic and export coal sales contracts for the year 2006. It is expected that the contract price of domestic power coal will increase slightly and the domestic contract prices of other coal sales remain stable; export coal price is expected to decrease, amongst which the amount of price decrease in semi-soft coking coal will be greater than that of steam coal. It is expected that the Company's contract price of export coal will be higher than the current spot price.

The sales target for the year 2006 of the Company is 34 million tonnes and the export coal volume is expected to be 7 million tonnes.

OPERATING STRATEGIES

The Company will continue to improve its profitability and Shareholders' return through organic development and external expansion. In 2006, the Company will focus on the following operating strategies:

i) **Improving operation management and boosting profitability of the existing coal mines.**

Firstly, the Company will stabilize the output and sales volume of its existing coal mines, optimize and adjust the production system of the coal mines so that the level of output will return to the normal level commencing from April this year, in order that the output of raw coal will start to increase again for the year.

Secondly, the Company will continue to implement the "Three Nil Project" to improve product quality and reputation in the market and to continuously implement the "Four Optimizations" by increasing the product sales prices through optimizing the Company's products mix and users mix; optimizing the transportation structure and port flow structure to reduce the cost of sales and increase the net product sales prices; strategically allocating the coal sales to the more profitable markets and emphatically increasing the sales volume to major consumers.

Thirdly, improving management and cost control. The Company will improve the financial control system, strengthen the budgeting management for its capital and control the capital risk. The Company will fully implement the policy of "increasing the income, reducing the cost, reducing the material consumption and increasing the efficiency" by improving the overall budgeting management system, strengthening accountability and improving the system of assessment of performance for reward and punishment, thereby effectively controlling the cost. The Company will strive to control its unit cost below that of year 2005.

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ii) **Speeding up the development pace of the existing project and continuing to look for new acquisition opportunities.**

The Company will accomplish the production system revamping, mining equipment installation and commissioning of Austar Coal Mine in Australia, and endeavours to put the coal mine into full operation in the third quarter of 2006. The Company will complete the commercial negotiation for the new coal mine project in Shaanxi Province, and endeavours to finish construction of coal mine so acquired by end of this year. The Company will speed up the construction pace of Zhaolou Coal Mine in Shandong Province and the methanol project in Shaanxi Province, and endeavours to accomplish the constructions of these two projects and put them into operation in the fourth quarter of year 2007.

In the year 2006, the Parent Company will implement the transfer of part of its coal and power operations and other new projects, which are in line with the Company's development strategies in accordance with the relevant regulations. In addition, the Parent Company will support the Company in its acquisition of the above-mentioned transfers to increase the business performance of the Company, reduce connected transactions and intra-industry competition between the Parent Company and the Company. The Company would be invited to invest in the coal liquefaction project which is being developed by the Parent Company.

The Company will continue to look for new acquisition opportunities in coal and other related industries, expand the scale of its coal mine assets, develop coal further processing business.

iii) **Regulating the operations of the Company and improving the management expertise of the Company.**

Firstly, completing the re-engineering of the internal control systems before the end of the year 2006. The Company will improve its internal control of work flow and system in accordance with the requirements of Sarbanes-Oxley Act. The Company will complete the assessment and evaluation of the internal control system and test-run the system in the second quarter of 2006, and will formally run the system and issue the Internal Control Report by the end of the year 2006.

Secondly, improving the management of the Company, strengthening staff training. The Company will arrange for its Directors, Supervisors, senior management and the other employees to attend regular training of the newly revised Corporate Laws, Securities Law and the other relevant trainings to strengthen their awareness of self-discipline and responsibility. The Company will revise its Articles of Association for the purpose of improving its corporate governance to promote the operational compliance of the Company.

Thirdly, strengthening the management of external investment. The Company will improve of its external investment and management systems, set up evaluation system on responsibility assessment, control the risk of investment and improve the quality and returns of investment.

I would like to express my sincere gratitude to the management and staff of the Company for their hard work as well as to all our Shareholders for their support. I am confident that the output volume of the Company's existing coal mines will resume increases, that the Company will attain breakthroughs in the development of new projects in 2006 and that the Company will achieve good economic efficiency and strong competitive edge.

On behalf of the Board

Wang Xin
Chairman

21st April, 2006